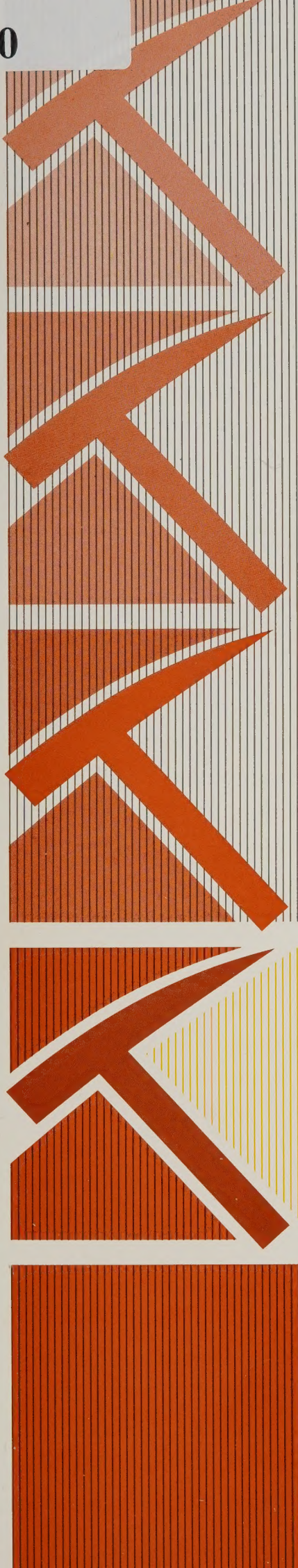



AR10



# Kelvin Energy Ltd.

1978 annual report





Digitized by the Internet Archive  
in 2023 with funding from  
University of Alberta Library

[https://archive.org/details/Kelv0467\\_1978](https://archive.org/details/Kelv0467_1978)

# Highlights

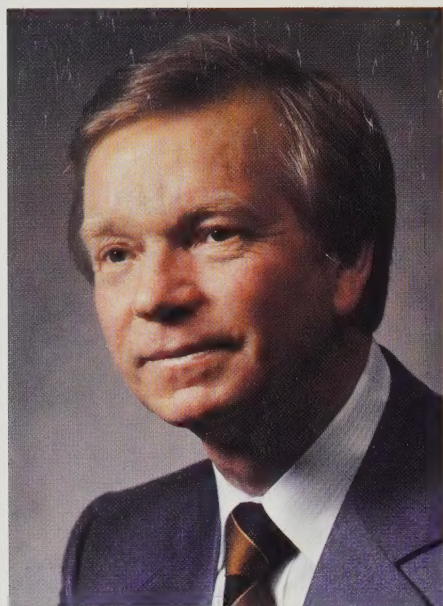
- Company's interest in all Mineral Properties 2,526,900 gross acres, 271,649 net acres
- Kelvin's gross exploration expenditure \$1,683,000
- Exploration Progress recorded on Mineral Properties with four upgraded
  - Keefe Lake-Henday Lake, Saskatchewan
  - Ward Creek, Saskatchewan
  - Louison Lake, Northwest Territories
  - Kettle River, British Columbia
- Successful completion of public placement of 500,000 common shares at \$3.00 per share
- Shares listed on Alberta Stock Exchange
  - listing symbol "KEV"

## Annual Meeting

The Annual Meeting of Shareholders of Kelvin Energy Ltd. will be held at the Glencoe Club, 29th Avenue and 6th St. S.W., Calgary, Alberta at 10:00 A.M. on April 27, 1979. General notice of this meeting and proxy material are enclosed.



# President's Report



FRED T. COUSINS  
*President and Director*

I am pleased to report the highlights of an eventful and successful period during which your Company evolved from an aggregate of exploration joint ventures into a publicly-owned organization with its major activity the search for uranium in Canada.

For Kelvin the most significant development of the past several years has been the evolution of a major uranium exploration play in the Athabasca Basin of Northern Saskatchewan. Following the announcement in September 1975 of the discovery of a major uranium ore body at Key Lake, Kelvin's predecessor company and its partners staked mineral claim blocks totalling 360,000 acres in the eastern portion of the Athabasca Basin in the vicinity of Keefe Lake. At that time most industry activity and land holdings were concentrated along the edge of the Athabasca Sandstone contact with the underlying crystalline rocks. Our decision to acquire acreage inside the



DR. H. BRUCE LYALL  
*Vice-President — Exploration and Director*

Basin followed the recommendation of Dr. H. B. Lyall, Vice President Exploration, who believed that uranium ore bodies would be present in the deeper parts of the Basin and could be found by known exploration techniques.

In retrospect this decision was justified by the announcement of the Midwest Lake discovery by a group headed by Esso Minerals Canada on land surrounded by the Keefe Lake property. The recognition that this ore body could be one of the largest and highest grade uranium deposits in North America stimulated an industry land play into the interior and deeper portions of the Basin. By the end of 1978 almost all of the acreage within the Athabasca Basin had been taken and exploration activity had increased substantially over previous years. A record number of rigs is expected to be in operation during 1979.

In 1976 and 1977 Asamera Oil



ROBERT L. FUCHS  
*Director*

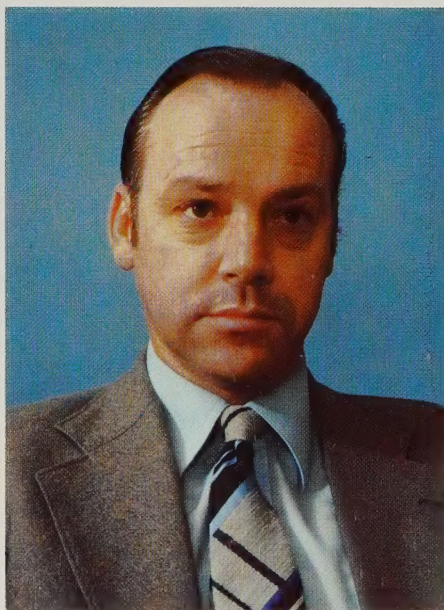
Corporation Ltd. and the Saskatchewan Mining Development Corporation joined Kelvin's predecessor company and its original staking partners in a venture to explore the Keefe Lake properties with Asamera as operator. Since then the joint venture land position has been expanded to approximately 1,000,000 acres. Exploration surveys that started in 1976 have already located 65 anomalies of interest and are continuing. Drilling operations began in 1978 and the venture is now operating four rigs under a substantial exploration budget. Results thus far have been very encouraging.

At Ward Creek, west of Keefe Lake-Henday Lake in the east central Athabasca Basin area, Kelvin and partners acquired an interest in permits and claim blocks of approximately 1,000,000 acres. Airborne and ground surveys have been carried out and a drilling program is planned for this property in 1979.

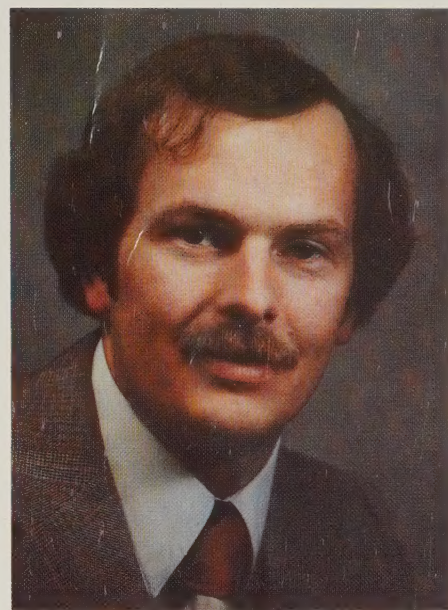




DR. JOHN E. WYDER  
*Director*



PETER SANTMANN  
*Director*



WAYNE L. MORRISON  
*Secretary-Treasurer*

During the past year Kelvin staked new holdings in the Northwest Territories near Louison Lake and around Heron Lake, and in the Kettle River region of British Columbia. Exploration surveys were initiated in all these areas. Geophysical surveys and drilling were undertaken at Chilcotin in British Columbia. Kelvin also participated in an exploration project in the Mount Isa section of Queensland, Australia.

In addition to its uranium activities Kelvin participated, through a venture with Black Hawk Resources of Denver, in the acquisition of oil and gas leases in the western United States, principally in Montana, Wyoming, Colorado and California. These properties are being farmed out to other companies for drilling, with the Company retaining carried interests of up to 3.125 per cent in at least eight wildcat wells to be drilled in 1979.

Acting as a broker, Kelvin

earned a royalty interest in a South Texas property which began producing uranium by an in situ leaching process late in the year. The Company also obtained a royalty interest in an exploration program in this same general area.

The aggressive addition of new holdings and the expansion of exploration activities were made possible by two sources of funds. In 1977 Kelvin entered into an exploration joint venture with E & B Explorations Ltd. which provided \$2,500,000 for land acquisition, exploration and overhead with the Company carried for an interest in all projects. In December 1978 an offering of 500,000 shares of common stock was made in Alberta and Saskatchewan. All of the stock was successfully placed providing net proceeds to the Company of \$1,410,000.

As a result of these financings, Kelvin ended the year with working capital of \$1,203,000

after spending \$1,683,000 on property acquisition and exploration.

The Company was fortunate to add a number of talented and experienced personnel to its staff in order to cope with the expanded activity. E. M. Estabrooks joined the exploration staff under the direction of Dr. Lyall. Early in 1979 Wayne L. Morrison joined the administrative side as Secretary and Treasurer.

Launching a new company requires the unstinting efforts of everyone involved. I am grateful for the dedicated contributions of our employees and directors, and the financial support of our new shareholders. Together they have made possible this year of progress.

Respectfully submitted

A handwritten signature in dark ink, appearing to read "Fred T. Cousins".

Fred T. Cousins  
President

March 15, 1979



# Exploration Activities

## SASKATCHEWAN

### Keefe Lake-Henday Lake

The Company holds a 13% interest (subject to the provisions of the E & B Explorations Ltd.-Kelvin Energy Ltd. Joint Venture Agreement which may reduce the Company's interest to 6.5% upon the fulfilment of certain conditions contained in this Agreement) in 931,500 claim blocks and permit acres and a 9% interest (which is subject to the same Joint Venture Agreement and may be reduced to 4.5%) in 85,600 claim block acres within one of the most prospective and active uranium exploration trends in Saskatchewan. The Company is in a joint venture with Asamera Oil Corporation Ltd., as Operator, Saskatchewan Mining Development Corporation, Reserve Oil & Minerals Corporation, and three private companies. During 1978 an ambitious program of exploration has characterized the activities of this joint venture. Included in this program were surface geological examinations, geophysical detailing and considerable diamond drilling, much of this being concentrated in the vicinity of Midwest Lake, site of the Esso-Numac-Bow Valley announced 97,000,000 pound uranium discovery. Excerpts from a number of Asamera press releases follow in chronological sequence and indicate the reasons for the Company's continued and increasing optimism for this area:

### February 22, 1978

"Asamera Oil Corporation Ltd. advises that the drilling results

announced February 21, 1978 by Esso Minerals Canada, a division of Imperial Oil Ltd. apparently relate to lands located in Northern Saskatchewan on acreage contiguous to and surrounded by acreage being explored by Asamera on behalf of itself and partners."

### July 6, 1978

"In late 1977 an airborne input electromagnetic survey was flown which indicated 65 groups of electrical conductors of varying intensity. This was followed by Turam ground surveys which effectively localized the conductors and is providing targets for the present drill program. To date, 12 holes have been drilled to test three of these conductors. Two holes on one conductor returned minor indications of radioactivity. A hole drilled on the third conductor encountered narrow widths of apparently good grade uranium mineralization within a 12 meter zone above and below the contact of the Athabasca sandstone and underlying Wollaston rocks."

### July 28, 1978

"Drilling has been conducted on 4 of 65 anomalies and uranium has been encountered in holes drilled on 3 of these. Four holes on the first anomaly drilled encountered no significant mineralization while 3 drillholes on the second anomaly returned minor uranium values. Follow-up drilling will be conducted on the second anomaly.

Drillhole number 11 was drilled on a third anomaly and uranium occurrences were intersected at depths below 103 meters. This

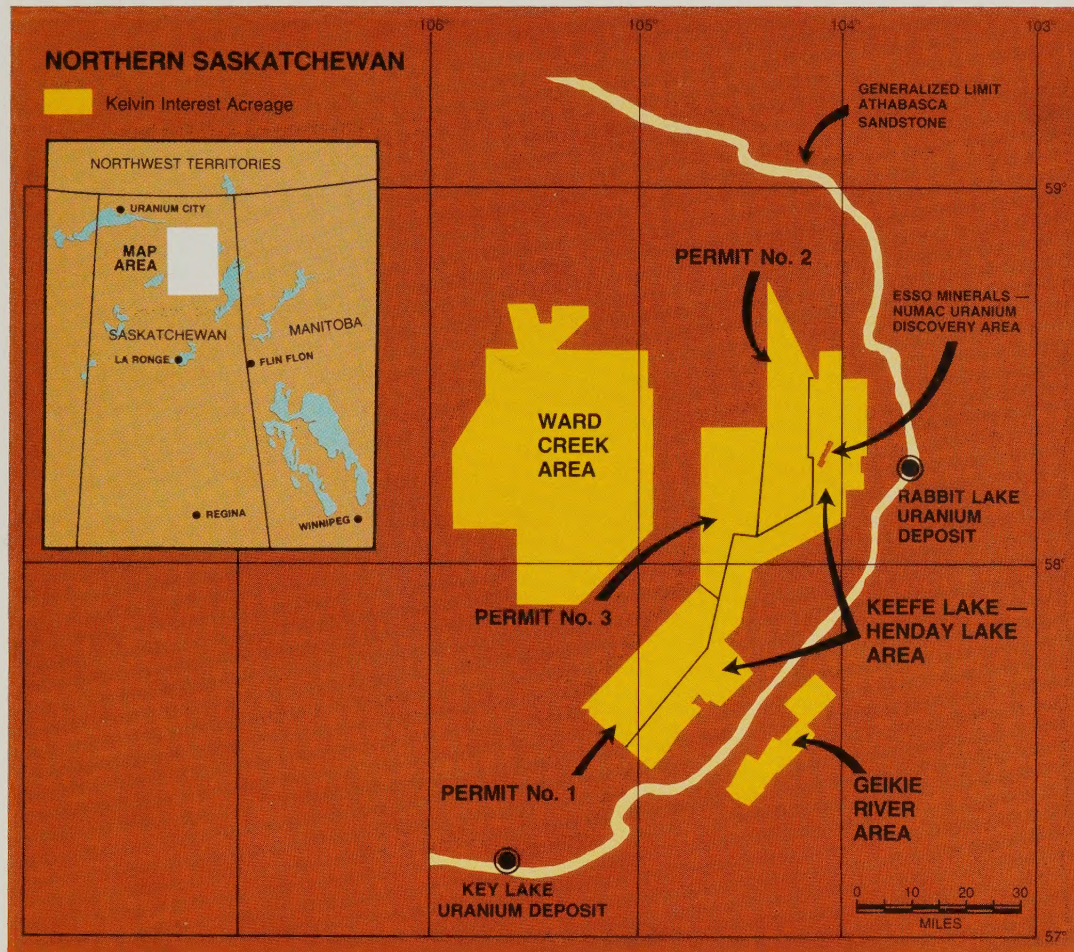
hole intersected a 1.74 meter zone which on assay return a weighted average grade of 24.95 pounds per ton of uranium. A broader interval covering 3.38 meters, which includes the 1.74 meter zone, had a weighted average grade of 12.89 pounds per ton. Two follow-up holes within 30 meters of drillhole number 11 have encountered radioactive zones, however assay results are not yet available for these tests. Closely spaced drilling is continuing on this anomaly.

A fourth conductor had radioactivity in the basement rocks. Pitchblende was observed on the fractures in the radioactive sections. Additional drilling is planned on this anomaly."

### September 29, 1978

"Since the last report two drill rigs have been operating. The first rig has drilled three exploration holes and has carried out follow-up exploration drilling on close spacing in the area of the anomaly confirmed by drill hole #11, Asamera's previously announced uranium discovery some 5 miles east of Midwest Lake. One of the three exploratory holes, hole #14 located approximately one-half mile northwest of hole #11, provided encouraging results. The hole, drilled on a separate geophysical anomaly, intersected a 3-foot zone of uranium, at a depth of 413 feet, which on assay returned a weighted average grade of 13.8 pounds per ton of uranium. Follow-up drilling will commence on this anomaly when equipment is available. A pattern drilling program





associated with the discovery at drill hole #11 has resulted in 12 follow-up holes to date within an area measuring about 325 feet by 125 feet. By assay 4 of these holes encountered good uranium values, one encountered low grades over narrow widths, and assays have not been received for another 4 which encountered mineralization. Assay results returned to date for these holes have been encouraging, but in the Company's opinion sufficient assay data to establish a weighted average grade over this area have not yet been obtained. Assay results have varied significantly from one hole to another and individual intersections range from a weighted average of 2.6 pounds

per ton of uranium over a 7-foot interval to 33.8 pounds per ton over a 29-foot interval. Additional drilling to the south of this area has encountered a crossfault, but recently completed geophysical surveys indicate that the anomaly is displaced to the west and continues to the south of this fault. Further drilling will be undertaken to examine the continuance of this anomaly to the south as well as its continuance to the north of hole #11 where it is known to remain open."

#### November 30, 1978

"Asamera Oil Corporation Ltd. reported today that it continues to be encouraged by the results returned from the Asamera

operated uranium exploration program on the Keefe Lake-Henday Lake property in northern Saskatchewan.

Drilling associated with the previously announced uranium discovery at hole #11 now includes 38 holes drilled on the anomaly with various degrees of good radioactivity being encountered in 24 of these holes. The zone of interest now covers an area measuring approximately 800 feet by 125 feet. The intersected radioactive zones have varied from narrow up to 170 feet. As well, assay results received have varied significantly as individual intersections range from 2.6 pounds per ton of uranium over a 7 foot interval to 33.8 pounds per ton over a 29 foot interval. The north end of the anomaly remains open and drilling is continuing in this direction. To the south, where geophysical surveys have indicated the anomaly continues south of a fault zone, drilling will commence as equipment becomes available.

About one-half mile west of the #11 anomaly a second drilling rig has been assigned to the delineation of the anomaly associated with the discovery at hole #14 where a 3 foot zone on assay returned a weighted average grade of 13.8 pounds per ton of uranium. This program commenced only recently and assay results for other than the discovery hole are not yet available. Including #14, seven holes have been drilled to this anomaly and radioactivity has been encountered in five of the drill holes. Drilling east and west of hole #14 across the anomaly has



# Exploration Activities (continued)

indicated a 130 foot zone of interest which remains open to the east. While one hole of two drilled about 80 feet south of the #14 discovery hole encountered radioactivity, it is not possible, based on this limited amount of data, to establish a north-south length for the zone of interest at this time."

## January 19, 1979

"In the Dawn Lake Area (previously referred to as the Hole No. 14 discovery area) 15 holes have now been completed with radioactive mineralization being encountered in 12. Drilling has defined a well mineralized zone in the Athabasca Sandstone and Wollaston Formation over an east-west width of approximately 180 feet. Results of logging the main mineralized zone, which was encountered at a depth of 308 feet, indicates thicknesses of up to 72 feet with the average calculated thickness of the mineralization being 47 feet. To date drilling has extended the zone of interest 165 feet south. Detailed ground geophysics completed to date indicate the Dawn Lake anomaly

continues a minimum of 1,000 feet south and 1,000 feet north of the discovery hole. Two drilling rigs are currently assigned to the examination of the Dawn Lake Area.

Downhole conditions at Dawn Lake are extremely poor with core losses in the mineralized zone of up to 80 per cent in some of the holes. Sampling in the zone has, therefore, been erratic, as have the assays. Alternative equipment and techniques are being used to attempt to improve core recovery. Assays from the Dawn Lake drill holes have ranged up to 100 pounds per ton of uranium despite poor core recovery from sections which were indicated to be highly radioactive during downhole logging.

In the "Hole No. 11 Area", announced previously as an uranium discovery, 46 holes have been drilled on the anomaly with various degrees of radioactive mineralization being encountered in 27 of these holes. One drill has commenced work south of the known mineralized zone where detailed ground geophysics indicate the Hole No. 11 Area anomaly continues at least 650 feet south. The mineralized

zone remains open to the north where drilling is planned pending additional geophysical examination of the indicated anomaly. Assay results received, while varying significantly, have ranged from 2.6 pounds per ton over a 7-foot interval to 70 pounds per ton over a 41-foot interval. In one hole, on assay, an 11-foot interval returned in excess of 340 pounds per ton of uranium. Precious metal values encountered in the Hole No. 11 Area have not been fully evaluated at this time."

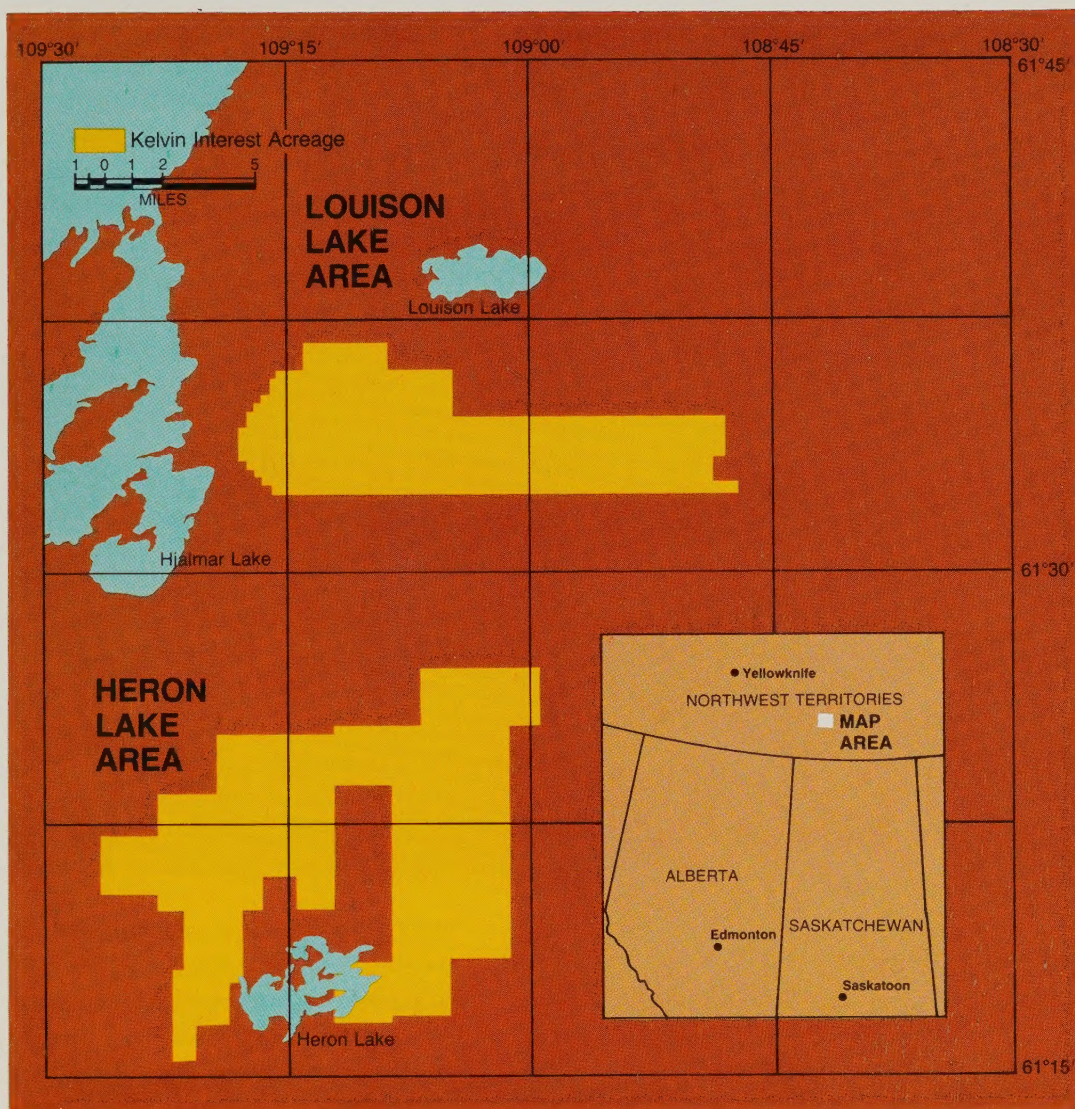
## Ward Creek

The Company has a 8<sup>1</sup>/<sub>3</sub>% interest in this property which consists of 4 permits and 23 claim blocks covering a total of 1,037,435 acres. This area is located 225 miles north of La Ronge and 150 miles southeast of Uranium City and 45 miles west of Midwest Lake.

During 1978 the area was examined by airborne geophysical methods (radiometrics, electromagnetics, and magnetics) and by geological methods on the ground. Some of the results obtained were unexpected and very encouraging.

A diamond drilling program and some geophysical and geochemical studies are planned for early 1979. This program will very likely continue through to the end of 1979.





### Heron Lake,

The Company holds a 33 $\frac{1}{3}$ % interest in this property that covers 60,675 claim acres and is closely associated geologically with the Louison Lake area, which lies approximately 20 miles to the north. The ground was acquired in late 1978 on the basis of strong localized uraniferous indications from the lake bottom sediments and other criteria.

Because the acquisition was made late in the year, no work was performed on this property during 1978. An airborne geophysical survey and reconnaissance geological and geochemical ground examination are planned for 1979. Depending on the results of this preliminary study, detailing by geophysical methods and testing by core drilling may be desirable during the latter part of 1979.

## NORTHWEST TERRITORIES

### Louison Lake

The Company has a 33 $\frac{1}{3}$ % interest in this property which comprises 39,220 claim acres located some 220 miles east/northeast of Hay River, Northwest Territories. Kelvin had an option to acquire a 60% interest in an additional 2,270 lease acres from an operator in the area.

The property was acquired in 1978 because of the presence of a large number of uraniferous boulders on Kelvin holdings.

Kelvin explored the area by means of airborne geophysical methods that included radiometrics, electromagnetics and magnetics. In addition, the terrain was examined on the ground geologically, geochemically and radiometrically. As a result of these surveys it was determined that the area is structurally complex and radioactively attractive so that additional programs of ground detailing are planned for 1979. These include geophysics, drilling, and further geological and geochemical mapping.

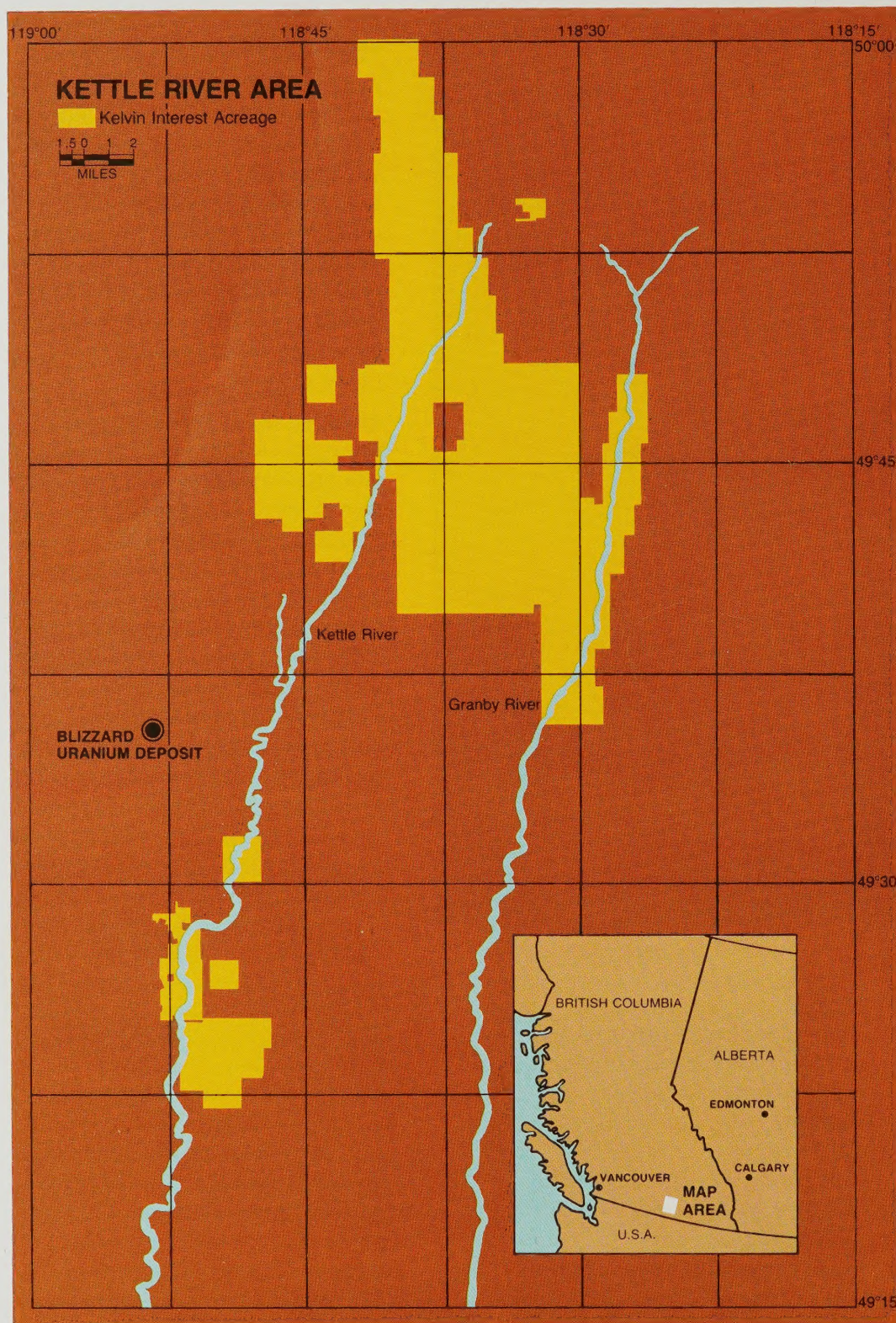
## BRITISH COLUMBIA

### Chilcotin

The Company holds 37.596% working interest in these 110,440 acres which include 7 groups of claims located about 100 miles west of Williams Lake, British Columbia. During 1978 certain zones were selected as prospective areas and these were examined by a ground geophysical program which was followed by a limited core drilling program. The diamond drilling results were conclusively negative with respect to encountering uranium mineralization but provided useful criteria for further office studies.



# Exploration Activities (continued)



## Kettle River

In this project the Company holds a 33 $\frac{1}{3}$ % interest position in 127,635 claim acres located approximately 45 miles east of Kelowna, British Columbia.

During the summer of 1978 a geochemical survey was conducted over the entire area and an airborne radiometric/electromagnetic/magnetic survey was flown. The results of

these surveys were very encouraging in that a number of attractive anomalous zones have been defined for follow-up in 1979. The indications suggest the possible presence of Tertiary paleodrainage uraniferous occurrences as exist at Blizzard, Fuki and Hydraulic Lake. Vein-type uranium occurrences are also possible within this area. Base metal indications were also revealed and most are generally found in close association to the uranium anomalies.

An aggressive follow-up of the 1978 results is planned for the 1979 field season which will include geological mapping, geochemical sampling, geophysical detailing, and early drilling on some of the more attractive prospects.

Such acceleration of programs is necessitated by the short working season which is caused by very heavy snowfall in this area of high relief and difficult access during the winter.

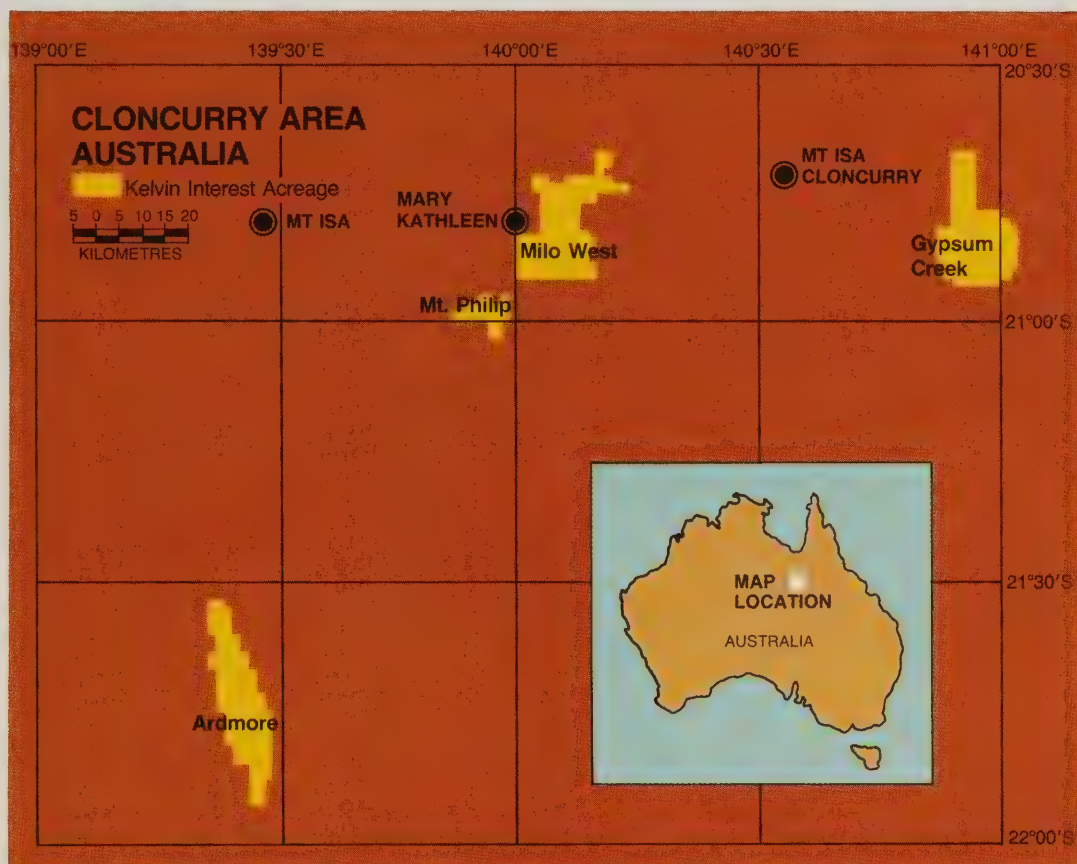
## AUSTRALIA

### Mt. Isa - Cloncurry

The Company holds a 6.25% interest in approximately 100,000 acres in the Mt. Isa, Cloncurry area of the State of Queensland, Australia. This ground was held in four Authorities to Prospect designated — Milo West, Ardmore, Mt. Philip and Gypsum Creek.

During 1978 airborne radiometric and magnetic surveys were flown over the Ardmore and Mt. Philip A to P's and selected anomalous results





were examined on the ground. During routine follow-up of an anomalous area on the east side of one of the blocks a highly radioactive source was detected and an excellent uranium analysis was obtained from grab samples. Thus, additional land acquisition and detailing of this prospect is warranted and is contemplated for 1979.

The Milo West and Gypsum Creek blocks were examined in considerable detail and drilling encountered no significant uranium or other mineralization.

The Milo West A to P lies immediately east of the almost depleted Mary Kathleen uranium mine and it was disappointing that the property proved negative as even a small ore body on the Milo West property would have had almost immediate production potential.

No further work is being recommended for Mt. Philip, Milo West or Gypsum Creek A to P's in 1979.

## OTHER PROJECTS

In addition to the specific exploration projects discussed, the Company has investigated through consultants other possible environments for the occurrence of uranium and associated minerals. It is anticipated that from these studies new concepts will evolve leading to additional acquisitions in attractive geological areas. The Company continues to review submissions that may represent attractive participations with other companies.

## Mineral Properties

	Gross Acres	Kelvin Net Acres
<b>Saskatchewan</b>		
Keefe Lake-Henday Lake		
Claim Blocks ...	360,206	23,413
Permits .....	571,328	37,136
Geikie Claim		
Blocks .....	85,600	3,852
Ward Creek		
Claim Blocks and Permits .....	1,037,435	86,418
<b>British Columbia</b>		
Kettle River .....	127,635	42,545
Chilcotin .....	110,440	41,525
<b>Northwest Territories</b>		
Louison Lake		
Claims .....	39,220	13,073
Louison Lake		
Option .....	2,270	1,362
Heron Lake Claims	60,675	20,225
<b>Australia</b>		
Mt. Isa, Cloncurry		
A to P's .....	100,000	2,100
<b>United States</b>		
Zamzow .....	318	— *
South Texas .....	31,773	— *
	<u>2,526,900</u>	<u>271,649</u>

\* Kelvin's interest is a Royalty Interest

## Oil and Gas Properties

	Gross Acres	Kelvin Net Acres
<b>Canada</b>		
Turner Valley .....	640	288
Clive .....	3,520	352
	160	144
	640	32
	640	16
	2,560	128
Bison Lake .....	10,880	109
<b>United States</b>		
Black Hawk		
Agreement .....	9,360	1,170
Other .....	1,200	8
	<u>29,600</u>	<u>2,247</u>





## Consolidated Balance Sheet

DECEMBER 31, 1978

### ASSETS

	1978	1977
<strong>CURRENT ASSETS</strong>		
Cash .....	\$ 16,774	\$ —
Term deposits .....	1,250,000	—
Accounts receivable .....	138,334	183,618
	<u>1,405,108</u>	<u>183,618</u>
<strong>FIXED ASSETS (Note 1)</strong>		
Producing oil and gas properties, at cost less accumulated depletion \$2,019 .....	31,089	—
Non-producing oil and gas properties, at cost .....	136,527	—
Oil and gas equipment at cost less accumulated depreciation \$2,132 .....	15,571	—
Non-producing mining properties .....	257,836	200,138
Office furniture and equipment at cost less accumulated depreciation \$1,167 .....	4,670	1,587
	<u>445,693</u>	<u>201,725</u>
<strong>OTHER ASSETS</strong>		
Incorporation costs .....	—	2,045
<strong>TRUST ASSETS</strong>		
Cash .....	246,202	10,702
Short term deposits .....	350,000	315,000
Due from Kelvin Energy Ltd. ....	119,935	—
	<u>716,137</u>	<u>325,702</u>
	<u><u>\$2,566,938</u></u>	<u><u>\$713,090</u></u>

APPROVED BY THE BOARD:

Director

Director



## LIABILITIES

	1978	1977
CURRENT LIABILITIES		
Bank indebtedness .....	\$ 7,849	\$ —
Accounts payable and advances from participants .....	74,096	187,250
Due to E & B Explorations Ltd. ....	119,935	—
	<u>201,880</u>	<u>187,250</u>
NOTE PAYABLE (Note 5) .....	115,700	—

## SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 3)		
Authorized		
5,000,138 shares		
Issued		
2,500,276 (1977 — 2,000,276) .....	1,545,263	200,638
Less subscriptions receivable .....	—	500
	<u>1,545,263</u>	<u>200,138</u>
DEFICIT .....	(12,042)	—
	<u>1,533,221</u>	<u>200,138</u>
TRUST LIABILITIES .....	716,137	325,702
	<u>\$2,566,938</u>	<u>\$713,090</u>





*File*  
Kelvin Energy Ltd.

## Consolidated Statement of Earnings and Deficit

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978
REVENUE	
Oil and gas sales .....	\$ 8,514
Other .....	8,384
	<hr/> 16,898
EXPENSES	
Production expenses and royalties .....	3,577
Administration and general .....	22,337
Depletion and depreciation .....	3,026
	<hr/> 28,940
NET LOSS FOR THE YEAR AND DEFICIT .....	<hr/> \$(12,042)
NET LOSS PER SHARE .....	<hr/> (0.48¢)
FULLY-DILUTED LOSS PER SHARE — (Note 6) .....	<hr/> (0.38¢)

## Auditors' Report

To the Shareholders,  
Kelvin Energy Ltd.

We have examined the consolidated balance sheet of Kelvin Energy Ltd. as at December 31, 1978 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

As set out in Note 1(c) to the financial statements, the recovery of mining expenditures is dependent upon the success of the company's future mining operations.

In our opinion, subject to satisfactory resolution of the matter referred to in the preceding paragraph, these financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change in accounting policy as stated in Note 1(b) concerning the commencement of operations.

Calgary, Alberta  
March 26, 1979

JARRETT GOOLD & ELLIOTT  
Chartered Accountants



# Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	For the Period Sept. 9, 1977 (date of incorporation) to Dec. 31, 1977
<b>SOURCE OF WORKING CAPITAL</b>		
Proceeds from share issue (net of costs) .....	\$1,344,625	\$200,138
Increase in note payable .....	115,700	—
Share subscriptions receivable .....	500	—
	<u>1,460,825</u>	<u>200,138</u>
<b>USE OF WORKING CAPITAL</b>		
Net loss for the year .....	12,042	—
Items not affecting working capital		
Depreciation and depletion .....	3,026	—
Incorporation costs .....	2,045	—
	<u>6,971</u>	<u>—</u>
Incorporation costs .....	—	2,045
Acquisition of resource properties .....	223,576	200,138
Additions to oil and gas equipment .....	19,168	—
Additions to furniture and fixtures .....	4,250	1,587
	<u>253,965</u>	<u>203,770</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL .....</b>	<b>1,206,860</b>	<b>(3,632)</b>
<b>WORKING CAPITAL (DEFICIENCY) at beginning of period .....</b>	<b>(3,632)</b>	<b>—</b>
<b>WORKING CAPITAL (DEFICIENCY) at end of period .....</b>	<b><u>\$1,203,228</u></b>	<b><u>\$ (3,632)</u></b>
<b>REPRESENTED BY:</b>		
Current assets .....	\$1,405,108	\$183,618
Current liabilities .....	201,880	187,250
Working capital (deficiency) .....	<u>\$1,203,228</u>	<u>\$ (3,632)</u>





## Notes to Consolidated Financial Statements

DECEMBER 31, 1978

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary (Kelvin Resources Inc.) acquired on July 4, 1978.

Excess consideration paid over the book value of the company was allocated to the oil and gas properties in the amount of \$23,124.

#### b) Commencement of Operations

In the prior period the company was considered to be in the development stage and therefore capitalized all expenditures incurred for exploration, development and administration and no statement of earnings was prepared. These costs were allocated to resource properties.

Since January 1, 1978 the company has commenced to report as an operating company.

#### c) Resource Properties

Costs of acquisition and development of resource properties have been capitalized on the area of interest basis. Recovery of mining costs are dependent upon developing economic mining operations. Amortization of these costs will be on a unit of production basis on the proven reserves in the area. If any areas of interest are abandoned the costs related thereto will be charged to income in the year of abandonment. Proceeds received on the disposal of properties will be credited against the costs of an area. Where proceeds exceed the costs, this excess will be included in income. The Company cannot determine if recoverable reserves are equal to their costs.

#### d) Oil and Gas Equipment and Office Furniture and Fixtures

Depreciation is provided in the accounts at rates sufficient to amortize the costs over their estimated useful lives.

#### e) Foreign Currency Translation

The accounts of the Company's United States subsidiary have been translated into Canadian dollars on the following basis:

- i) Current assets and current liabilities at the rate of exchange in effect at the balance sheet date.
- ii) Non-current assets and liabilities at historical rates.
- iii) Revenue and expense items at average rate since acquisition.

Gains and losses on translation are charged to earnings.

### 2. OPERATIONS

The Company is the operator of certain mineral properties currently under development. As operator, the Company earns the right to an interest in the properties. In addition, the Company has the right to acquire additional interest in these properties upon the assumption of a portion of the costs.



### 3. SHARE CAPITAL

#### Authorized

The Company is authorized to issue 5,000,138 shares without nominal or par value.

#### Issued

As at December 31, 1977, the issued share capital was 1,000,138 shares for a consideration of \$200,638. Pursuant to a special resolution of the shareholders dated June 1, 1978, all issued and fully paid up non-assessable shares of the Company were converted into stock and thereafter such stock was reconverted into 2,000,276 fully paid up shares without nominal or par value. Total consideration received is:

Consideration	Shares	Amount
Mineral properties .....	1,000,000	\$ 200,000
Cash .....	1,500,276	1,345,263
	<u>2,500,276</u>	<u>\$1,545,263</u>

Costs of issuing 500,000 shares amounting to \$155,375 have been written-off against the proceeds of the issue.

Under a stock option agreement dated August 1, 1977, 102,874 warrants were issued entitling the holders to an option to purchase two common shares for each warrant issued at \$1.05 each, exercisable for a period of three years commencing November 15, 1978.

Under an agreement dated May 15, 1978 stock options on 400,000 common shares exercisable at \$1.05 per share on or before May 15, 1981 were granted to shareholders, officers, employees and others.

Under an agreement referred to in Note 5 Canadian Kelvin Resources Ltd. has the right to convert the Note Payable into 64,300 common shares.

### 4. REMUNERATION TO DIRECTORS

Consulting fees were paid indirectly to directors and senior officers of the Company in the amount of \$85,000. No amounts were paid to directors in their capacity as directors.

### 5. NOTE PAYABLE

During the year the Company issued a note payable to Canadian Kelvin Resources Ltd. as consideration for 100% of the shares of a U.S. subsidiary (Kelvin Resources Inc.) and certain interests in oil and gas properties owned by Canadian Kelvin Resources Ltd. The note payable is non-interest bearing and is due and payable on July 4, 1981.

### 6. FULLY-DILUTED LOSS PER SHARE

The fully-diluted loss per share has been calculated on the assumption that all options were exercised at the beginning of the year.



# Corporate Information

## Head Office

#434, 550 - 6th Ave. S.W.  
Calgary, Alberta T2P 0S2  
Phone: (403) 263-3171  
Telex: 03-826549  
Cable: "Kelvin" Calgary

## Subsidiary Company

Kelvin Resources, Inc.

## Bankers

Canadian Imperial Bank of Commerce  
550 Fifth Ave. S.W.  
Calgary, Alberta T2P 0L9

## Auditors

Jarrett Goold & Elliott  
2060 Daon Bldg., 444 - 5th Ave. S.W.  
Calgary, Alberta T2P 2T8

## Solicitors

Atkinson McMahon  
750 IBM Bldg., 606 - 4th St. S.W.  
Calgary, Alberta T2P 1T1

## Transfer Agents

The Canada Trust Company  
239 - 8th Ave. S.W.  
Calgary, Alberta T2P 1B9  
The Canada Trust Company  
1921 Scarth St.  
Regina, Saskatchewan S4P 2H1

## Directors and Officers

Fred T. Cousins  
President and Director

Dr. H. Bruce Lyall  
Vice-President Exploration and  
Director

Robert L. Fuchs  
Director

Peter Santmann  
Director

Dr. John E. Wyder  
Director

Wayne L. Morrison  
Secretary-Treasurer







